



UNDER SECRETARY OF DEFENSE
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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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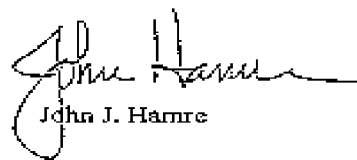
SUBJECT: Quarterly Reviews of Commitments and Obligations

The timely review of commitments and obligations to ensure the accuracy and timeliness of financial transactions is a vital phase of financial management. The accurate recording of these transactions forms the basis for formal financial reports issued by the Department, as well as for providing information for management to make informed decisions regarding resource allocation. A failure to perform periodic reviews of outstanding commitments and obligations not only contributes to inaccurate accounting reports but also can adversely effect the Department's attempts to eliminate unmatched disbursements and negative unliquidated obligations. In addition, the incomplete recording of commitments and obligations may increase the potential for violations of the Antideficiency Act.

Effective July 1, 1996, commitment and obligation transactions must be reviewed for, and confirmed as to their accuracy, completeness and timeliness at least three times a year. Please ensure that all organizations under your command perform required reviews and confirmations in accordance with the requirements contained in the attachment.

The Director for Accounting Policy should ensure that the guidance provided in the attachment is incorporated into the DoD 7000.14-R. "DoD Financial Management Regulation."

My staff point of contact for this issue is Mr. Henry Bezold. Mr. Bezold may be reached at (703)614-3523 or DSN 224-3523.


John J. Hamre

Attachment

Quarterly Reviews of Commitments and Obligations

A. Policy:

1. It is the policy of the Department of Defense (DoD) that commitment and obligation transactions recorded in the official accounting systems will be reviewed for accuracy, completeness, and timeliness at least three times each fiscal year. The reviews are to be conducted during each of the 4 month periods ending on January 31, May 31, and September 30 of each fiscal year.

2. A separate policy memorandum (copy attached) requires that obligations be recorded in the official accounting records at the time that the legal obligation is incurred, or as close to the time of incurrence as is possible. However, in no instance should obligations be recorded any later than 10 calendar days following the date that an obligation is incurred. In the case of obligating actions of \$100,000 or more, they must be recorded in the official financial reports no later than the earlier of 10 days or the end of the month in which the obligation is incurred.

B. Purpose:

The purpose of reviewing commitment and obligations at least three times each fiscal year is to ensure the accuracy and timeliness of the records in the official accounting systems. Commitment and obligation records are the basis for formal financial reports of the Department. These reports are used by management within the Department, and by those outside the Department, for resource allocation and other decisions. In addition, accurate obligation records are a critical factor in the Department's efforts to eliminate unmatched disbursements and negative unliquidated obligations. To the extent that obligation records in the Department's official accounting systems are not fully accurate, the associated disbursements cannot be successfully matched to the correct obligation. Also, incomplete obligation records increase the potential for violations of the Antideficiency Act.

C. Scope:

The requirement for reviews of commitments and obligations applies to all appropriations and funds of all DoD Components. This requirement applies not only to direct appropriations but also to all reimbursable transactions as well as the Department's revolving and trust funds.

D. Roles and Responsibilities:

1. Accounting Office:

a. Accounting offices will provide funds holders with listing(s) or automated media identifying both outstanding commitments (commitments that have not yet been obligated) and unliquidated obligations recorded for the fund holder. The transaction media must be such that the review can be documented and individual transactions can be annotated if the review reveals further action is required.

b. If requested, the accounting office will assist funds holders in the conduct of their reviews by (1) assisting in the identification and organization of transaction groupings in such a manner so as to facilitate the review by different segments of the funds holder's organization (2) assisting in the identification and correction of situations that may delay the recording of commitments or obligations, or the matching of disbursements to obligations; and (3) entering corrections identified by the funds holder when such corrections are adequately documented and the entry of such transactions is the normal function of the accounting office.

2. Funds Holder:

a. Funds holders are responsible for conducting reviews of outstanding commitments and unliquidated obligations, irrespective of whether the funds holder or the accounting office actually enters commitments and/or obligations into the official accounting system. (This responsibility is placed on the funds holder because the funds holder initiates those actions that result in commitments and obligations and, therefore, is in the best position to determine the accuracy and the status of, such transactions.)

b. **Review Actions Required by Funds Holders:** The following requirements shall be accomplished by the funds holder no later than 14 days following the end of January, 14 days following the end of May, and as well as by September 30, of each fiscal year. The following requirements represent the minimum review requirements that must be conducted by funds holders. Management at any level may require more detailed or more frequent reviews to ensure the timeliness and accuracy of the financial records of the funds under their cognizance.

(1) Outstanding Commitments:

(a) Investment Appropriations (Procurement; Research; Development; Test and Evaluation; Military Construction; the Foreign Military Sales Trust Fund; and the capital budget of the Defense Business Operations Fund.) Each outstanding commitment of \$200,000 or more must be reviewed, using the guidelines specified in paragraph D.3.a., to determine if the requirement is still valid, if the amount of the commitment is accurate, and whether the commitment has been converted to an obligation and should be recorded as an obligation in the official accounting system. The office that initiated the requirement that led to the commitment should be required to participate in the review.

(b) Operating Appropriations (Operation and Maintenance, Revolving Funds, Trust Funds other than the FMS Trust Fund, the operating portion of the Defense Business Operations Fund and other appropriations/funds, as appropriate):

Each outstanding commitment of \$50,000 or more must be reviewed, using the Guidelines specified in paragraph D.3.a., to determine if the requirement is still valid, if the amount of the commitment is accurate, and whether the commitment has been converted to an obligation and should be recorded as an obligation in the official accounting system. The office that initiated the requirement that led to the commitment should be required to participate in the review.

(2) Unliquidated Obligations:

(a) Investment Appropriations (Procurement; Research, Development, Test and Evaluation; Military Construction; the Foreign Military Sales Trust Fund; and the capital budget of the Defense Business Operations Fund): Each outstanding obligation of \$200,000 or more must be reviewed, using the guidelines specified in paragraph D.3.a., to determine if the recorded obligation amount is accurate, the unliquidated amount is valid and whether goods or services have been received for which a disbursement has not been recorded. If, based on the receipt of deeds or services, it appears that a disbursement transaction should have been received but is not recorded, the paying office should be contacted to determine the status of the expenditure. The office that initiated the requirement that led to the obligation should be required to participate in the review.

(b) Operating Appropriations (Operation and Maintenance; Revolving Funds, Trust Funds other than the FMS Trust Fund, the operating portion of the Defense Business Operations Fund and other appropriations/funds, as appropriate): Each unliquidated obligation of \$50,000 or more must be reviewed, using the guidelines specified in paragraph D.3.a., to determine if recorded obligation amount is accurate, the unliquidated amount is valid and whether deeds or services have been received for which a disbursement has not been recorded. If, based on the receipt of goods or services, it appears that a disbursement transaction should have been received but is not recorded, then paying office should be contacted to determine the status of the expenditure. The office that initiated the requirement that led to the obligation should be required to participate in the review.

© All obligations not covered by paragraphs D.2.b.(2)(a) and (b) above, must be reviewed at least annually in order to substantiate the certification provided on the year end SF-2108.

c. Documentation:

(1) All required adjustments or corrections identified during the review must be documented and should be processed within 10 days of their identification.

(2) The comptroller/fiscal officer of every activity or office, that has been

issued a formal subdivision of funds carrying RS-1517 responsibility, must complete a formal signed confirmation statement, attesting to the accomplishment of the review (required in D.2.b. above) and the accuracy and completeness of the recorded amounts. The review documentation and the confirmation statement must be completed within 21 days following January 31, within 21 days following May 31 and by September 30, of each fiscal year. The written confirmation statement must:

- (a) confirm that the required commitment and obligation reviews have been conducted;
 - (b) confirm that all known obligations have been recorded;
 - (c) identify problems noted as a result of the review;
 - (d) advise whether, and the extent to which, adjustments and/or corrections to remedy noted problems have been taken;
 - (e) summarize, by type, the actions and/or corrections remaining to be taken, and when such actions/corrections are expected to be completed; and
 - (f) identify what actions have been taken to preclude identified problems from recurring in the future.
- (3) To the extent that a funds holder is unable to confirm the accuracy of commitment or obligation amounts, a full written explanation of why they are unable to do so, and the corrective actions being taken, shall be provided to the funds grantor.
- (4) Funds holders are required to maintain, for a period of 24 months following the completion of the review, documentation that is sufficient to permit independent organizations, such as the Department of Defense Inspector General, or the Component Audit Agency/Service or Inspector General, to verify that the reviews were accomplished as required.

3. Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and Comptrollers of the Defense Agencies and DoD Field Activities:

a. Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and Comptrollers of the Defense Agencies and DoD Field Activities will implement effective internal controls that ensure that the required reviews are being completed and that identified corrective actions are completed in a timely manner. Funds holders must establish aging criteria for identifiable groups of transactions, that are based on the normal transaction cycle for such transactions. For example, contract commitments should be reviewed once the normal timeframe for contract award has elapsed, this may be longer than the normal cycle time for a purchase order. The same is true for obligation transactions, purchase order delivery time frames normally would be shorter than the delivery

time for a major weapons system procurement contract. The criteria for each group of transactions must be documented and made part of the review documentation.

b. Within 45 days following the end of January and May each fiscal year, the Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and Comptrollers of the Defense Agencies and DoD Field Activities shall provide confirmation statements to the Under Secretary of Defense (Comptroller). These confirmation statements must (1) confirm that the required commitment and obligation reviews have been conducted; (2) confirm that all known obligations have been recorded; and (3) identify the internal controls used to ensure that the detail reviews were conducted. In addition, the confirmation statement will identify, by organization and individual, any funds holder that was unable to complete the required review or confirm the accuracy of the reported commitments and obligations. In the event an unqualified confirmation statement is not provided by the funds holder, a full explanation of why the funds holder failed to provide an unqualified confirmation statement, as well as the corrective actions being taken, must be provided.